

Nefesh B'Nefesh Aliyah Fair

“Israeli Tax Perspectives”

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The Data refers to year 2018

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Income Tax



- Progressive tax method
- In Israel, an individual's income is taxed only after exceeding certain minimum thresholds - Start to pay income tax when yearly income exceeds approx. \$16,663.

2018 Tax brackets

<u>Marginal rate</u>	<u>Salary (\$)</u>	<u>Incremental tax (\$)</u>	<u>Cumulative tax (\$)</u>	<u>Effective tax rate</u>
10% tax rate ceiling	21,394	2,139	2,139	10.0%
14% tax rate ceiling	30,686	1,301	3,440	11.2%
20% tax rate ceiling	49,234	3,710	7,150	14.5%
31% tax rate ceiling	68,434	5,952	13,102	19.1%
35% tax rate ceiling	142,389	25,884	38,986	27.4%
47% on every additional \$				

3% surcharge tax will be added to revenues in excess of \$183,394

Income Tax (cont'd)



- Tax deductions (reduction of taxable income) - contributions to pension funds, disability insurance, national insurance
- Tax credits (reduction of tax liability) - communities, Oleh status, charitable contributions
- Separate/joint tax calculation
- Who is required to file a full tax return?
 - Salaried workers with annual income exceeding \$183,714
 - Self-employed individuals
 - Company owners

Income Tax (cont'd)

- Exempt income (social security payments, rental income up to NIS 5,300 [\$1,514], sale of residential property subject to restrictions).
- Income taxed at reduced rates
(Capital gains/dividends: 25%-30%;
Interest: between 15%-25%;
Residential rental income – max. rate of 10%)



Forms of Association in Israel

- **Individual**
- **Partnership** - up to 20 partners (exception: law and accounting firms)
- **Company** - limited liability or unlimited liability (professional corporations - ex: doctors, lawyers, accountants, etc.)

Forms of Association in Israel - Advantages and Disadvantages

Individual/Partnership/Corporations

<u>Subject</u>	<u>Individual</u>	<u>Company</u>
Tax rate	Progressive up to 50%	23% (note that after-tax take-home income will be taxed at an additional 30%-33%, so that the effective tax is around 50%)
Bookkeeping and accounting	Simplified bookkeeping that <u>can</u> be done independently – not recommended	Requires bookkeeping and accounting by professionals
Limited liability	No limit to liability	Limited liability
Severance pay	None	12,230 NIS (\$3,494) per year of employment

Deductible business expenses

Examples of business expenses:

- Rent
- Maintenance
- Telephone and communication
- Salaries and social benefits
- Purchase of furniture & equipment (depreciable over several years)
- Purchases
- Office supplies
- Professional fees
- Specific expenses for each and every business
- Home office expenses (ex: consultants, physicians, etc.) - a pro rata share of household maintenance expenses are deductible



Losses

- Current operating losses (not capital) can offset current income and carried forward

Business Losses carried forward and can offset any income source

Capital Losses can offset only capital gains

Other

- Statement of Net Worth (“Hatzharat Hon”)
- Audited financial statements required for corporations and non-profits (recommended for partnerships)



10-year tax exemption for Olim

- Broad exemption on all income generated abroad, including business income, salaries and passive income (ex: interest, dividends, capital gains, rental income, royalties, etc.)
- An additional 10-year exemption (ie: 20-yr total exemption) when investing in a project in Israel with a “national goal”
- 10-year tax exemption on capital gains, a proportionate exemption from year 11
- **No requirement** to purchase assets before Aliyah
- Tax break on foreign pensions – Israeli tax will not exceed the tax that would have been paid overseas
- Exemption from “Statement of Net Worth”, and reporting on trusts and activity from controlled companies operating outside of Israel
- The first year of the exemption period may be deferred by filing a request

During 2013, our office succeeded in cancelling proposed legislation to revoke some of the items mentioned above

Information sharing with the IRS

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Mechanism for Foreign Tax Credit (after 10 years)

Income from a business overseas

\$
10,000

Tax in Israel

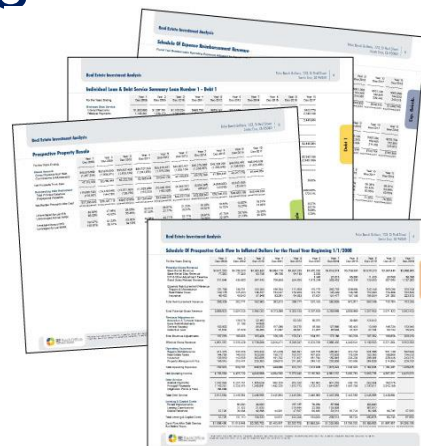
3,000

Less: credit for tax paid overseas

(2,000)

Net tax due in Israel

1,000



Value Added Tax (VAT)

- VAT rates and their application, including exemptions (fruits & vegetables, exports, insurance, etc.)
- Manner in which VAT is prepared

Example:

Consulting income as a physician

VAT collected (on revenues)

Total collected

Expenses

VAT paid on expenses

"Inputs"

Net amount of VAT paid

(highest tax bracket)

	Accounting with VAT Authority	Accounting with Income Tax Authority
Income	10,000	10,000
VAT collected (on revenues)	1,700	
Total collected	11,700	
Expenses	4,000	(4,000)
VAT paid on expenses	680	(680)
"Inputs"	4,680	6,000
Net amount of VAT paid	1,020	
	Individual (47%) 2,820	Company (23%) 1,380

National Insurance & Health Tax:

- Types of insurance: disability, birth grant, maternity leave, child allowance, work injury, old age pension, reserve duty, retirement, residual, income supplements, income support
- National Insurance rates for the self-employed and salaried worker (employer/employee)

National Insurance and Health Tax

Income up to \$1,698

Income above \$1,698 and up to \$12,391

Self-employed

5.97%

17.83%

Salaried worker

Employee – 3.5%

Employer – 3.45%

Employee – 12%

Employer – 7.5%

Health Insurance



- Hospital stays, doctor visits, medical procedures, etc.
- Avoid high National Insurance rates by incorporating

Salaries and Social Benefits

- Pension insurance by component - 12.5% employer, 6.5% employee
- Mandatory pension + types of insurance
- Overtime if more than 43 hours worked (125%, 150%)
- Minimum wage - NIS 5,300 (January 2018)
- Continuing education fund



Vacation, sick days

<u>No. of years seniority</u>	<u>Vacation days per year</u>
1-5	12
6	14
More than 7	Increases by 1 day for each year of seniority, up to a maximum of 20 days

- Sick pay - 18 days per year, including 8 sick days for children's illnesses
- Severance pay and pension fund - Employers must contribute between 12%-15% of salary for pension and severance, while around 50% of it is deducted from the employee's salary for pension. These contributions belong to the employee whether termination initiated by employer or employee.
- Salary payment date: Must be paid by the 10th day of the following month
- Employer's cost: 30% + of gross pay

PAY SLIP

MONTH	ID NUMBER	EMPLOYEE'S NAME
01/2018	33333333-3	ISRAEL ISRAELI

ALLOWANCE POINTS	DATE OF BIRTH	MARITAL STATUS
2.25	1/1/1980	UNMARRIED

BANK CODE	BRANCH	BANK ACCOUNT NUMBER
10	100	8888/77

PAYMENTS BREAKDOWN			
PAYMENTS	RATE	QUANTITY	PAYMENT CATEGORY
4,000	22.10	181	BASIC WAGE
470	27.63	17	OVERTIME 125%
67			TRANSPORT FARE
TOTAL PAYMENTS			
4,537			

PAYROLL DEDUCTIONS		
EMPLOYER DEDUCTIONS	EMPLOYEE DEDUCTIONS	DEDUCTION CATEGORY
	592	INCOME TAX
271	400	NATIONAL SECURITY + HEALTH TAX
533	200	PENSION FUND
300	100	ADVANCED STUDY FUND
	1,292	TOTAL PAYROLL DEDUCTIONS
	3,245	NET WAGE

NET PAYMENT
\$3,245

Dealing with the Tax Authorities

- Dealing directly with the Israeli Tax Authorities can be troublesome at best... and outright dangerous at worst!
- Remember, you have a business to run, a profession to develop and a life to live. Don't waste your time haggling with tax bureaucrats who specialize in raiding your hard earned income



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